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Fixed Income Market Review – November 2023

US Yield Levels

Date	2-year	10-year	30-year
11/30/23	4.73%	4.61%	4.73%
10/31/23	5.07%	4.88%	5.04%
9/29/23	5.03%	4.59%	4.73%
8/31/23	4.85%	4.09%	4.20%
7/31/23	4.88%	3.97%	4.02%
6/30/23	4.87%	3.81%	3.85%
5/31/23	4.40%	3.64%	3.85%
4/28/23	4.04%	3.44%	3.67%
3/31/23	4.06%	3.48%	3.67%
2/28/23	4.81%	3.92%	3.93%
1/31/23	4.21%	3.52%	3.65%
12/30/22	4.41%	3.88%	3.97%
11/30/22	4.38%	3.68%	3.80%
10/31/22	4.51%	4.10%	4.22%
9/30/22	4.22%	3.83%	3.79%
8/31/22	3.45%	3.15%	3.27%
7/29/22	2.89%	2.67%	3.00%
6/30/22	2.92%	2.98%	3.14%
5/31/22	2.53%	2.85%	3.07%
4/29/22	2.70%	2.89%	2.96%
3/31/22	2.28%	2.32%	2.44%
2/28/22	1.44%	1.83%	2.17%
1/31/22	1.18%	1.79%	2.11%
12/31/21	0.73%	1.52%	1.77%
12/31/20	0.13%	0.93%	1.65%
12/31/19	1.58%	1.92%	2.39%

***Source US Treasury Department**

With expectations rising, the Fed may be close or as I believe at the end of its tightening cycle, Treasury rates declined across the curve though the 2-year to 10-year remained inverted though I believe this will no longer exist by February at the latest.

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Bloomberg Barclay's Fixed Income Index Returns

Index	Nov 2023	Last 3 Months	Last 12 months
Aggregate	4.53%	0.26%	1.18%
Int Agg	3.47%	0.65%	1.88%
Gov't/Credit	4.33%	0.44%	1.48%
Int Gov't/Credit	2.67%	1.09%	2.67%
Gov't	3.44%	0.00%	0.22%
MBS	5.21%	-0.24%	0.26%
ABS	1.71%	1.10%	4.25%
CMBS	3.06%	0.94%	2.36%
US Credit	5.68%	1.10%	3.38%
US Corp High Yield	4.53%	2.09%	8.69%

Employment Report News

As reported by the US Labor Department, in October employers added 150,000 jobs though the manufacturing sector lost 35,000 jobs. The unemployment rate rose marginally from 3.8% to 3.9%, its highest level since January 2022. Employment added in the combination of August and September were revised down by a combined total of 101,000.

We Work

On November 7th, an interesting experiment in shared, flexible office space, filed for bankruptcy. At its peak it had a stock value of $47 billion. However, at the time of the filing it reported more than $18 billion in debt and $100 million of unpaid rent. The recent value of its stock is down to $45 million. Though LinkedIn estimates the global value of coworker space at $14 billion, with remote work levels declining from pandemic levels, the future of coworking spaces is not bright.

Inflation

On November 8th the Bureau of Labor Statistics reported the PPI fell by 0.5% in October, the largest monthly decline since April 2020. The major reason for the decline was Energy fell 6.5% in October with gasoline down 15.3%. Goods inflation was also down 1.4%, but the annual PPI was up 1.3% ending in October and the core PPI was unchanged for the month and up 2.4% on an annual basis.

On November 21st the Commerce Department reported the core PCE rose just 0.2% in October and 3.5% for the twelve-month period ending in October. These were the lowest increases since the Spring of 2021. The three-month average for the core PCE ending with October was 2.5%, not far above the Fed's 2% objective.

The overall PCE Index was unchanged in October, the first it was unchanged since July 2022. The twelve-month overall number was up 3%, its lowest level since March 2021.

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The US Consumer
Consumer expenditures increased by just 0.2% in October after the 0.7% jump in September. Personal income increased by a relatively low level in October at 0.2% and the savings rate rose to 3.1%, a 0.1% gain from September. The thinking about the low increase for consumer spending likely was tied to expectations for upcoming holiday sales. I buy that expectation.

On November 15th the Commerce Department reported retail sales in October dropped 0.1%, the first decline since March. Car sales were down 1.1% for the month but two areas not tied to future holiday sales, restaurant sales were up 0.3% and supermarket sales up 0.7%. As an example, the National Retail Federation report on November 29th reported that while the Mall of America saw a 20% increase in foot traffic from the prior year, consumers spent less on average from Black Friday through cyber-Tuesday than they did in 2019.

The University of Michigan consumer survey as reported on November 15th indicated consumers expectations for inflation had risen 3.2% in October, to its highest level since 2011. I find this to be an interesting fact since inflation is slowing, and the economy is doing well yet the Democratic Party is having trouble presenting this to the US voter heading toward next year's elections.

The US Economy
The Commerce Department reported on October 15th the economy grew by a healthy 4.9% in the 3rd Quarter though I believe the 4th Quarter is slowing.

Oil
As reported by AAA on November 15th the price of oil was down 20% from its September highs, landing at $3.37 a barrel compared to 3.37 a month ago, and $3.78 a year ago. US oil production hit a record 132 million barrels a day in October was Chinese exports to the US fell 6.4%.

The US Housing Market
The typical income for US home buyers has risen from $88,000 in 2022 to $107,000 in 2023, the largest increase in history. Interestingly, 70% of current home buyers did not have any children under 18 in the homes, while in 1985 only 42% of home buyers did not have children under 18 in their homes. The percentage of homebuyers that are white declined in 2023 to 81% in 2022. In 2023 buyers were 7% Latino, 6% Asian and only 7% black. Single females represented 19% of buyers, since males 10% and unmarried couples 9%.

On November 9th Mortgage rates dropped by the largest amount in a year to 7.5% for conforming 30-year mortgages from 7.76%. The current monthly cost to buy a home in 2023 is $166 on average, a 7.4% rise from 2022.

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Though mortgage interest rates have declined, the inventory of homes for sale has remained low and prices have risen dramatically in many geographic areas. The median existing home price rose in October by a 3.4% amount to $391,000. This was the highest average price for an October back to 1999.

With the low current inventory level, the National Association of Realtors is reporting existing home sales declined by 4.1% in October to a seasonally adjusted 3.79 million annual level. This depressed sale level is a 13-year low. The Realtors Association reports there are 1.15 million homes for sale or under contract at the end of October which is down 5.7% from October 2022.

Another interesting fact, 29% of October existing homes sales were purchased for cash. The same month a year ago this number was 26%. However, with higher home prices ICE now reports it takes nearly 41%of median household income to afford the financing costs of a median priced home. The last time this percentage was this high was in 1984.

Consumer Debt
During the 3rd Quarter of 2023, 5.78% of credit card balances became seriously delinquent. Since the 1st quarter of 2022, the rate of seriously delinquent credit card debt has risen by roughly a 90% factor.

Due to the pandemic and consumers not spending at usual historic rates, homeowners banked large amounts of cash through home refinancing. From the second quarter of 2020 though the end of 2021, 14 million mortgages were refinanced according to the New York Federal Reserve. The NY Fed reported these excess savings reached $2.1 trillion. With the pandemic effects waning, consumers have spent $1.9 trillion of this accumulated excess amount.

Yet with so much having already been spent, Mastercard's SpendingPulse reports Black Friday foot traffic up 4.6% from 2022 and e-commerce sales jumped 8.5% this year compared to last year. 72% of shoppers used Buy now, pay later plans.

In opposition to these negative outlooks, current numbers are positive. The Commerce Department's report showed consumer spending was up 0.7% in September compared with 0.4% in August. The annual number was a rise of 4%, the strongest pace since the 4th quarter of 2021. With spending up, the report indicated the September savings rate was 3.4% down from 4% in August. The September result was the fourth consecutive monthly decline.

China
On December 1st Goldman Sachs provided a Briefing Paper indicating it expects the road to recovery for China's property sector to cover a period of multiple years. The estimate Goldman provides of China's mortgage and property developer outstanding debt is $8.4 trillion. Goldman speculates that while the Chinese government can control most aspects of the primary market,

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it has much less control in the secondary markets. They believe the concerns that exist will spread to the commodities markets.

Cryptocurrency

If you have been a regular reader of my monthly Fixed Income Market Reviews, I am certain you are aware I hate cryptocurrency. However, several of my close associates at Greenrock do not have the significant distaste for the topic such as I do. As a result, I do periodically mention the topic especially if I have a negative news article about it.

As reported on November 21st through CNN, Binance is the world's largest crypto exchange. Until recently it was handling 60% of the market's share of spot trading for crypto. However, it now faces a $4.3 billion payout to US authorities to resolve criminal charges. Changpeng Zhao, commonly known as CZ, who was the founder of Binance resigned as its CEO and plead guilty to federal money laundering charges.

Though it will move ahead without CZ who in the settlement has avoided prison, Binance is being allowed to remain in business, though with careful oversight. Being allowed to live another day reflects the concern its shutdown would damage a wide range of individual investors.

My Economic Outlook

I have to begin my Outlook section by highlighting a story I found from a publication named the Market Insider. The article details the expectations of ING Economics. Although I do not know this organization well, they do have a relatively strong industry reputation.

The article presents the belief that the Federal Reserve is poised to cut interest rates six times in 2024 in response to a slowing US economy. ING states the cuts will start in the second quarter of 2024 and extend well into 2025.

After more than fifty years in the investment industry, I do not take lightly criticizing the opinions of other organizations since I have found I am often wrong more than right when projecting into the future. But in this case, I want to be on the record that I don't agree with this projection.

I continue to stand by my projection that fixed income may very well beat the returns of equities from the start of this current quarter through much of 2024, it not the entire year. But for that to happen the Fed can't be cutting rates to the extent presented by ING Economics in this article.

Therefore, if you happen to read this article, understand I don't believe the economy will need so enormous a push as the Fed making multiple easing steps to continue performing. As reported last month, bonds will continue to perform well and the historic 60/40 portfolio return

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should be strongly considered. The chief investment officer of Goldman Sachs Asset Management states in this briefing paper, "I think the risk/return looks a lot better in bonds at these levels than it does for stocks."

It's been a long time since I said anything near to that but as I indicated starting last month, I agree with the Goldman position, or perhaps they agree with me.

Bob Southard, on Behalf of Greenrock Research
December 1, 2023